

**HEBER VALLEY  
SPECIAL SERVICE DISTRICT**

**REPORT OF INDEPENDENT ACCOUNTANTS  
AND  
FINANCIAL STATEMENTS**

**December 31, 2005 and 2004**

**HANSEN, BARNETT & MAXWELL**  
A Professional Corporation  
CERTIFIED PUBLIC ACCOUNTANTS

## HEBER VALLEY SPECIAL SERVICE DISTRICT

### TABLE OF CONTENTS

	Page
Report of Independent Certified Public Accountants	1
Management's Discussion and Analysis	3
Financial Statements	
Balance Sheets - December 31, 2005 and 2004	7
Statements of Revenues, Expenses and Changes in Net Assets for the Years Ended December 31, 2005 and 2004	8
Statements of Cash Flows for the Years Ended December 31, 2005 and 2004	9
Notes to Financial Statements	11
Supplemental Information	
Schedule of Revenues, Expenses, Debt Retirement, and Capital Asset Acquisitions Compared to Budget as Amended (Other Than Depreciation and Impact Fee Transactions)	18
Report on Internal Control over Financial Reporting on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	19
Independent Auditors' Report on Compliance with General and Specific Requirements Applicable to Audits of Local Governments in Utah	20

---

# HANSEN, BARNETT & MAXWELL

A Professional Corporation  
CERTIFIED PUBLIC ACCOUNTANTS

5 Triad Center, Suite 750  
Salt Lake City, UT 84180-1128  
Phone: (801) 532-2200  
Fax: (801) 532-7944  
www.hbmcpas.com

Registered with the Public Company  
Accounting Oversight Board



## REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

Honorable Board of Heber Valley  
Special Service District  
Midway, Utah

We have audited the balance sheets of Heber Valley Special Service District, a component unit of Wasatch County, as of December 31, 2005 and 2004, and the related statements of revenues, expenses and changes in net assets, and cash flows for the years then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

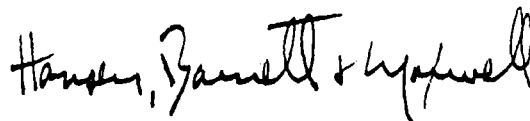
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Heber Valley Special Service District as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

During the year ended December 31, 2004, Heber Valley Special Service District implemented GASB Statement No. 34, as discussed further in Note 10 to the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 13, 2006 on our consideration of Heber Valley Special Service District's internal control over financial reporting and our tests of its compliance with certain laws, provisions, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Our audits were made for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary schedule, "Schedule of Revenues, Expenses, Debt Retirement, and Capital Asset Acquisitions Compared to Budget as Amended (Other than Depreciation and Impact Fee Transactions)" is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The management's discussion and analysis is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in cursive script, appearing to read "Hansen, Barnett & Maxwell".

**HANSEN, BARNETT & MAXWELL**

Salt Lake City, Utah  
April 13, 2006

## **Management's Discussion and Analysis**

### **December 31, 2005**

The following is a discussion and analysis of Heber Valley Special Service District's financial performance providing an overview of the District's financial activities for the year ended December 31, 2005. It should be read in conjunction with the District's financial statements.

### **Financial Highlights**

The assets of Heber Valley Special Service District exceeded its liabilities at the close of the year by \$18,954,000, an increase of assets in 2005 of \$1,805,844.

The District collected \$101,862 for the Capital Contingency Fund assessment.

The District installed a SCADA for improved monitoring and operations of the treatment facility.

The addition to the Operations Building and refurbishing was completed in 2005.

The District began the refurbishing of irrigation pumps and Blower Building motors.

### **Overview of the Financial Statements**

This discussion and analysis is intended to serve as an introduction to the District's financial statements. The district's financial reporting consists of two components: 1) financial statements, and 2) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

The District uses proprietary fund accounting to account for operations that are financed and operated in a manner similar to private business enterprises – where the intent of the governing body is that the costs of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges. Therefore, the financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private-sector business.

The *balance sheet* presents information on all of the District's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of revenues, expenses and changes in net assets* presents information showing how the District's net assets changed during the most recent year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future periods (e.g. earned but unused vacation leave).

The *statement of cash flows* shows what affect the District's operating activities, investing activities, and financing activities had on cash flows. Cash is vital to all organizations, and this statement helps the reader understand how the District received and used cash during the year.

### **Notes to Financial Statements**

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes are an integral part of the financial statements.

## Other Information

In addition to the basic financial statements and accompanying notes, this report also presents certain information relating to the operations of the District without regard to depreciation or impact fees, which are compared to, budgeted amounts.

## Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of the District, assets exceeded liabilities by \$18,954,000 at the end of the year.

### Heber Valley Special Service District's Net Assets

	2005	2004
Current Assets	\$ 5,799,925	\$ 3,771,434
Capital Assets	13,191,779	13,394,426
Other Assets	-0-	-0-
Total Assets	18,971,704	17,165,860
Current Liabilities	17,704	13,382
Long-term Liabilities	-0-	500
Total Current and long-term debt	17,704	13,882
Net Assets:		
Invested in capital assets, net of related debt	13,191,779	13,394,426
Restricted for capital improvements-impact fees	4,449,744	2,538,356
Unrestricted	1,312,477	1,119,196
Total Net Assets	\$18,954,000	\$17,151,978

The largest portion of the District's assets (70%) reflects its investment in capital assets (e.g. land, buildings and equipment), less any related debt used to acquire those assets that is still outstanding. Impact fees and/or capital contingency fund charges provide resources to repay capital-related debt.

An additional portion of the District's net assets (24%) represents resources that are subject to external restrictions on how they may be used (e.g. impact fees). The restricted balance is for capital projects and land acquisitions.

The remaining balance of unrestricted net assets (6%) may be used to meet the District's obligations to customers, member agencies, employees, and creditors to honor next year's budget.

As of December 31, 2005 *total assets* increased mainly from impact fee collections.

## Heber Valley Special Service District's Changes in Net Assets

	<u>2005</u>	<u>2004</u>
Operating Revenues		
Sewer Service Revenue	\$ 432,521	\$ 613,808
Farmstead	117,443	85,334
Miscellaneous Income	<u>-0-</u>	<u>-0-</u>
Total Revenues	549,964	699,142
Operating Expenses		
Sewer Service	206,083	177,074
Farmstead	97,869	108,898
General and Administrative	63,764	38,415
Depreciation Expense	<u>376,401</u>	<u>370,359</u>
Total Expenses	744,117	694,746
Net Non-Operating Revenue (Expenses)	1,996,175	1,577,415
Change in Net Assets	1,802,022	1,581,811
Net Assets at Beginning of Year	17,151,978	15,570,167
Net Assets at End of Year	<u>\$18,954,000</u>	<u>\$17,151,978</u>

The District's net assets increased by \$1,802,022. Key elements of this increase follows:

Total revenues were down mainly from the reduction of Capital Contingency Fund charges but Farmstead Revenues were up \$32,000.

User fees remained at \$0.52 per thousand gallons with the Capital Contingency Fund rate at \$1.50 per month per equivalent residential connection reducing Sewer Revenues by about \$180,000.

The General and Administrative Expenses reflect a \$23,000 donation to Wasatch County School District to off set the sewer impact fee for the Mill Road Elementary School.

Unrestricted net assets of the District as of December 31, 2005 amounted to \$1,312,477, an increase of \$193,281.

### Capital Asset and Debt Administration

#### Capital Assets

The District's investment in capital assets as of December 31, 2005 amounts to \$13,191,779 (net of accumulated depreciation). This investment in capital assets includes the Treatment Plant and related equipment, farm ground and related equipment, and some miscellaneous assets.

Major capital events during the current year included:

Completion of the building expansion at the operations building

Completion of the new SCADA system

Heber Valley Special Service District's Capital Assets  
(net of depreciation)

	<u>2005</u>	<u>2004</u>
Land	\$ 6,216,626	\$ 6,216,626
Buildings, plant and equipment – net	<u>6,975,153</u>	<u>7,177,800</u>
Net capital assets	\$13,191,779	\$13,394,426

Additional information on the District's capital assets can be found in the notes to the financial statements.

### **Long-term Debt**

At the end of December 31, 2005 the District had a total long-term debt of \$-0-.

The District's total debt was \$-0- for the year 2005.

Additional information on the District's long-term debt can be found in the notes to the financial statements.

The District is not aware of any existing conditions that will significantly change its financial position in the current year.

### **Request for Information**

This financial report is designed to provide a general overview of Heber Valley Special Service District's finances for all those with an interest in the District's finances. Questions concerning any of the information provided in this report, or requests for additional financial information should be addressed to the office of the District in care of District Superintendent at P.O. Box 427, 1000 East Main, Midway, Utah 84049-0427.



**HEBER VALLEY SPECIAL SERVICE DISTRICT  
BALANCE SHEETS  
DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>ASSETS</b>		
<b>Current Assets</b>		
Cash and equivalents	\$ 1,261,645	\$ 704,041
Cash and equivalents - restricted	4,449,744	2,638,356
Receivables - other governmental units	35,341	51,684
Other receivables	25,306	369,464
Other current assets	7,889	7,889
<b>Total Current Assets</b>	<u>5,779,925</u>	<u>3,771,434</u>
<b>Capital Assets</b>		
Land and water rights	6,216,626	6,216,626
Buildings, plant and equipment	13,699,405	13,525,651
Construction in progress	2,760	2,760
	<u>19,918,791</u>	<u>19,745,037</u>
Less: Accumulated depreciation	<u>(6,727,012)</u>	<u>(6,350,611)</u>
<b>Net Capital Assets</b>	<u>13,191,779</u>	<u>13,394,426</u>
<b>Total Assets</b>	<u>\$ 18,971,704</u>	<u>\$ 17,165,860</u>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Current Liabilities</b>		
Accounts payable	\$ 10,636	\$ 8,039
Other current liabilities	7,068	5,343
<b>Total Current Liabilities</b>	<u>17,704</u>	<u>13,382</u>
<b>Deferred Income</b>	<u>-</u>	<u>500</u>
<b>Net Assets</b>		
Invested in capital assets, net of related debt	13,191,779	13,394,426
Restricted for capital improvements-impact fees	4,449,744	2,638,356
Unrestricted	1,312,477	1,119,196
<b>Total Net Assets</b>	<u>18,954,000</u>	<u>17,151,978</u>
<b>Total Liabilities and Net Assets</b>	<u>\$ 18,971,704</u>	<u>\$ 17,165,860</u>

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT  
STATEMENTS OF REVENUES, EXPENSES AND  
CHANGES IN NET ASSETS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Operating Revenues</b>		
Sewer service revenue	\$ 432,521	\$ 613,808
Farmstead revenue	<u>117,443</u>	<u>85,334</u>
<b>Total Operating Revenues</b>	<u>549,964</u>	<u>699,142</u>
<b>Operating Expenses</b>		
Sewer service	206,083	177,074
Farmstead	97,869	108,898
General and administrative expenses	63,764	38,415
Depreciation expense	<u>376,401</u>	<u>370,359</u>
<b>Total Operating Expenses</b>	<u>744,117</u>	<u>694,746</u>
<b>Operating Income (Loss)</b>	<u>(194,153)</u>	<u>4,396</u>
<b>Non-Operating Revenues (Expenses)</b>		
Interest income - other	33,472	7,971
Interest income - impact fees	116,866	38,493
Interest expense	-	(5,032)
Land rent	8,337	8,525
Gain on sale of assets	500	332,276
Impact fees	<u>1,837,000</u>	<u>1,195,182</u>
<b>Net Non-Operating Revenues (Expenses)</b>	<u>1,996,175</u>	<u>1,577,415</u>
<b>Change in Net Assets</b>	1,802,022	1,581,811
<b>Net Assets at Beginning of Year</b>	<u>17,151,978</u>	<u>15,570,167</u>
<b>Net Assets at End of Year</b>	<u><u>\$ 18,954,000</u></u>	<u><u>\$ 17,151,978</u></u>

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT  
STATEMENTS OF CASH FLOWS  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Cash Flows From Operating Activities</b>		
Cash received from customers	\$ 909,964	\$ 679,155
Cash paid for operating goods	(276,934)	(225,063)
Cash paid to employees	(86,459)	(101,908)
<b>Net Cash From Operating Activities</b>	<u>546,571</u>	<u>352,184</u>
<b>Cash Flows From Noncapital Financing Activities</b>		
Proceeds from deferred sale of asset	<u>500</u>	<u>1,000</u>
<b>Net Cash from Noncapital</b>		
<b>Financing Activities</b>	<u>500</u>	<u>1,000</u>
<b>Cash Flows From Capital and Related</b>		
<b>Financing Activities</b>		
Acquisition of capital assets	(173,754)	(159,945)
Restricted revenue received - impact fees	1,837,000	1,195,182
Restricted revenue received - impact fees interest	116,866	38,493
Principal paid on note payable	-	(219,976)
Interest paid on note payable	-	(10,998)
Proceeds from sale of capital assets	<u>-</u>	<u>31,110</u>
<b>Net Cash From Capital and</b>		
<b>Related Financing Activities</b>	<u>1,780,112</u>	<u>873,866</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from land lease	8,337	8,525
Interest on investments	<u>33,472</u>	<u>7,971</u>
<b>Net Cash From Investing Activities</b>	<u>41,809</u>	<u>16,496</u>
<b>Net Increase in Cash</b>	2,368,992	1,243,546
<b>Cash at Beginning of Year</b>	<u>3,342,397</u>	<u>2,098,851</u>
<b>Cash at End of Year</b>	<u>\$ 5,711,389</u>	<u>\$ 3,342,397</u>

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT  
STATEMENTS OF CASH FLOWS (CONTINUED)  
FOR THE YEARS ENDED DECEMBER 31, 2005 AND 2004**

	<u>2005</u>	<u>2004</u>
<b>Reconciliation of income (loss) from operations to net cash from operating activities:</b>		
Income (loss) from operations	\$ (194,153)	\$ 4,396
Items not requiring the use of cash:		
Depreciation	376,401	370,359
Net changes in certain assets and liabilities:		
Receivables	360,500	(24,608)
Other current operating assets	-	5,121
Accounts payable	2,598	(4,737)
Other current liabilities	<u>1,225</u>	<u>1,653</u>
<b>Net Cash From Operating Activities</b>	<u><u>\$ 546,571</u></u>	<u><u>\$ 352,184</u></u>

The accompanying notes are an integral part of these financial statements.

**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2005 AND 2004**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Reporting Entity** — The Heber Valley Special Service District (the “District”) was organized in 1977 by the Board of County Commissioners of Wasatch County, Utah for the purpose of providing sewage collection and treatment services. The Board of County Commissioners supervises and controls the activities of the District and, therefore, the District is considered a component unit of the County. The District follows governmental accounting principles and is accounted for as an enterprise fund in a manner similar to a private business where the intent of the governing body is that the costs of providing services (including depreciation) on a continuing basis is financed primarily through user charges.

**Basis of Accounting** — The accrual basis of accounting is used whereby revenues are recorded when earned and expenses are recorded when liabilities are incurred. In accordance with GASB Statement No. 20, for Proprietary Fund accounting, the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedures.

**Capital Assets** — All plant assets are included in the financial statements and are stated at historical cost. Depreciation is provided using the straight-line method over their estimated service lives. The service lives by type of asset are as follows:

Building and improvements	40 years
Equipment and vehicles	5 - 10 years

**Cash Equivalents** — For purposes of the statement of cash flows, the District considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

**Other Receivables** — During 2004, the District sold certain land to the Bureau of Land Management. The sale was recorded in 2004 and the payment was received shortly after year end in the amount of \$353,486. This December 31, 2004 receivable is included with other receivables on the balance sheet.

**Use of Estimates** — The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Operating and Non-Operating Revenue and Expenses** — Operating revenues and expenses result from providing goods and services relating to the primary operations of the District. Other revenues and expenses are reported as non-operating.

**Use of Restricted Net Assets** — Impact fees are restricted for capital improvements. However, improvements can be made using unrestricted funds at the discretion of the Board.

## NOTE 2 – CASH DEPOSITS AND INVESTMENTS

**Cash Deposits** — All bank deposits were covered by federal depository insurance. Deposits are not collateralized, nor are they required to be by the State statute. The District had \$45,209 and \$11,519 in cash held by a bank as of December 31, 2005 and 2004, respectively.

**Investments** The District's deposits and investment policy follows the requirements of the Utah Money Management Act (Utah Code Annotated 1953, Chapter 7) in handling its depository and temporary investing transactions. This law requires the depositing of District funds in a "qualified depository." The Act defines a "qualified depository" as any financial institution whose deposits are insured by an agency of the Federal Government and which has been certified by the Commissioner of Financial Institutions as meeting the requirements of the Act and adhering to the rules of the Utah Money Management Council.

The Money Management Act also governs the scope of securities allowed as appropriate temporary investments for the District and conditions for making investment transactions. Investment transactions are to be conducted through qualified depositories or primary reporting dealers. Allowable investments under the Act include:

1. Negotiable or nonnegotiable deposits of qualified depositories,
2. Repurchase agreements with qualified depositories or primary reporting dealers,
3. Commercial paper which is rated P-1 by Moody's Investor Services or A-1 by Standard and Poors if the remaining term to maturity is 180 days or less,
4. Bankers' acceptances that are eligible for discount at a federal reserve bank and which have a remaining term of 180 days or less,
5. Obligations of the United States Treasury, including bills, notes and bonds,
6. Obligations issued by or fully guaranteed as to principal and interest by the following agencies or instrumentalities of the United States in which a market is made by a primary reporting government securities dealer: Federal Farm Credit banks, Federal Home Loan banks, Federal National Mortgage Association, Government National Mortgage Association, Federal Home Loan Mortgage Corporations, or Student Loan Marketing Association.
7. Shares or certificates in any open-end management investment company registered with the Securities and Exchange under the Investment Company Act of 1940, the portfolio of which is restricted by law or agreement to investments in which public funds may be invested directly.

A State Money Management Council was created under the State Money Management Act consisting of five individuals appointed by the Governor and qualified by training and experience in the fields of investing and finance. In performing its functions and responsibilities, the council provides a measure of depository protection. The council issues a list of qualified depositories to public treasurer's quarterly, and monitors the maximum amount of public funds each depository is eligible to hold in accordance with the law and the rules of the council. State law and council rules govern the finance reporting requirements of qualified depositories in which public funds may be deposited and prescribe the conditions under which the designation of a depository shall remain in effect. If a qualified depository should become ineligible to hold public funds, the public treasurers are notified immediately.

The District has invested all of its temporarily idle funds (totaling \$5,673,209 as of December 31, 2005) with the Utah Public Treasurer's Investment Fund (PTIF). The Utah State Treasurer's Office operates the PTIF which is invested in accordance with the State Money Management Act. The State Money Management Council provides regulatory oversight for the PTIF.

The investments with the State bore interest at 3.18% at December 31, 2005. The carrying amount is materially equal to fair value. All securities comprising the PTIF comply with strict investment criteria required by the Utah Money Management Act. All practices of the Fund are under the monthly scrutiny of the Utah Money Management Act. The Utah State Auditor audits the Fund each year. The degree of risk of the fund depends upon the underlying portfolio. Parties interested in learning what specific investments comprise the State Treasurer's Fund may contact the Utah State Treasurer's Office.

**Investment Interest Rate Risk** – The District does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.

**Summary** — The above described cash deposits and investments are presented in the financial statements as follows:

Cash	\$ 38,180
Cash –Unrestricted	<u>1,223,465</u>
Total Cash and Cash Unrestricted	1,261,645
Cash – Restricted	<u>4,449,744</u>
 Total Cash	 <u>\$ 5,711,389</u>

Of the \$5,711,389 in cash and cash equivalents, \$1,261,645 is designated as "cash," and the balance, \$4,449,744, is designated as "cash – restricted."

### NOTE 3 – CAPITAL ASSETS

The following is a summary of the capital asset activity for the year ended December 31, 2005:

	Balance December 31, 2004	Additions	Disposals	Balance December 31, 2005
<b>Capital Assets</b>				
<b>Capital assets not being depreciated:</b>				
Land and water rights	\$ 6,216,626	\$ -		\$ 6,216,626
Construction in progress	2,760	-	-	2,760
Total capital assets not being depreciated	6,219,386	-	-	6,219,386
<b>Capital assets being depreciated:</b>				
Sewage treatment plant	11,870,710	157,060	-	12,027,770
Ground water drains	86,811	-	-	86,811
Lift station	19,870	-	-	19,870
Treatment plant equipment	654,460	-	-	654,460
Plant and farm equipment	893,800	16,694		910,494
Total capital assets being depreciated	13,525,651	173,754	-	13,699,405
<b>Accumulated depreciation:</b>				
Sewage treatment plant	5,163,560	305,484	-	5,469,044
Ground water drains	68,435	967	-	69,402
Lift station	15,171	1,987	-	17,158
Treatment plant equipment	510,479	21,028	-	531,507
Plant and farm equipment	592,966	46,935	-	639,901
Total accumulated depreciation	6,350,611	376,401	-	6,727,012
Total capital assets being depreciated, net	7,175,040	(202,647)	-	6,972,393
<b>Capital assets, net</b>	<b>\$ 13,394,426</b>	<b>\$ (202,647)</b>	<b>\$ -</b>	<b>\$ 13,191,779</b>



The following is a summary of the capital asset activity for the year ended December 31, 2004:

	Balance December 31, 2003	Additions	Disposals	Balance December 31, 2004
<b>Capital Assets</b>				
<b>Capital assets not being depreciated:</b>				
Land and water rights	\$ 6,269,946	\$ -	\$ (53,320)	\$ 6,216,626
Construction in progress	-	2,760	-	2,760
Total capital assets not being depreciated	6,269,946	2,760	(53,320)	6,219,386
<b>Capital assets being depreciated:</b>				
Sewage treatment plant	11,870,710	-	-	11,870,710
Ground water drains	86,811	-	-	86,811
Lift station	19,870	-	-	19,870
Treatment plant equipment	638,023	16,437	-	654,460
Plant and farm equipment	792,039	140,748	(38,987)	893,800
Total capital assets being depreciated	13,407,453	157,185	(38,987)	13,525,651
<b>Accumulated depreciation:</b>				
Sewage treatment plant	4,866,834	296,726	-	5,163,560
Ground water drains	67,468	967	-	68,435
Lift station	13,184	1,987	-	15,171
Treatment plant equipment	490,237	20,242	-	510,479
Plant and farm equipment	581,516	50,437	(38,987)	592,966
Total accumulated depreciation	6,019,239	370,359	(38,987)	6,350,611
Total capital assets being depreciated, net	7,388,214	(213,174)	-	7,175,040
<b>Capital assets, net</b>	<b>\$ 13,658,160</b>	<b>\$ (210,414)</b>	<b>\$ (53,320)</b>	<b>\$ 13,394,426</b>

#### NOTE 4 – LONG-TERM DEBT

**Note Payable** — On June 16, 1999, the District purchased 78.95 acres of land adjacent to the District property. The purchase price was \$1,500,000. The District paid \$500,000 in cash and entered into a 5%, five-year note for the balance of the purchase price, \$1,000,000. Principal and interest payments of \$230,975 were due each June through 2004. The following is a summary of transactions affecting the note payable for the year ended December 31, 2004:

	Balance December 31, 2003	Additions	Payments	Balance December 31, 2004	Due Within One Year
Note payable	\$ 219,976	\$ -	\$ (219,976)	\$ -	\$ -

The sellers have leased the property back from the District for a fee of \$60 per acre per year. The annual lease payment is \$4,737.

## NOTE 5 – NET ASSETS

**Restricted for Capital Improvements – Impact Fees** — By resolution entitled “Resolution 00-01, Heber Valley Special Service District Waste Water Treatment Facilities Impact Fee Resolution” and effective April 19, 2000, the District assesses an impact fee on land development within the District boundaries to provide for sewer facilities necessitated by such development. These fees are accounted for as non-operating revenue and are not to be used for general operations. Also, the earnings on the impact fees investments are not to be used for general operations and are, therefore, accounted for as restricted revenue. As plant improvements are made, the amount of the improvements is moved from restricted net assets to unrestricted net assets.

The following is a summary of the activity affecting the net assets restricted for capital improvements – impact fees:

	<u>2005</u>	<u>2004</u>
Restricted for capital improvements-		
impact fees, beginning of year	\$ 2,638,356	\$ 1,637,964
Impact fees received	1,837,000	1,195,182
Interest income - impact fees	116,866	38,493
Payments for plant improvements	<u>(142,478)</u>	<u>(233,283)</u>
Restricted for capital improvements-		
impact fees, end of year	<u>\$ 4,449,744</u>	<u>\$ 2,638,356</u>

## NOTE 6 – LAND RENT

In June 1999 the District purchased land and with an agreement to lease the property back to the seller. The District is leasing the land back to the seller for \$4,737 per year. The lease agreement is ongoing but can be terminated with a one year's notice.

In April 2004 the District entered into a lease agreement whereby the District is leasing land to another party for \$2,100 per year. The lease is scheduled to terminate on August 31, 2009. However, the District does have the option to terminate the lease early subject to an early termination fee.

In May 2004 the District entered into another lease agreement to lease land to another party for \$1 per year. This lease will end in 2024.

In 2005, the District received payment for a land lease that was entered into and has since ended. The revenue was recognized in 2005 for this lease but no lease is active and the land for which the payment pertains to has previously been sold.

## **NOTE 7 – RETIREMENT PLAN**

*Plan Description* — The Heber Valley Special Service District contributes to the Local Governmental Contributory Retirement System (Contributory System) and Local Governmental Noncontributory Retirement System which are cost-sharing multiple-employer defined benefit pension plans administered by the Utah Retirement Systems (Systems). The Systems provide retirement benefits, annual cost of living adjustments, death benefits, and refunds to plan members and beneficiaries in accordance with retirement statutes and amended by the State Legislature.

The Systems are established and governed by the respective sections of Chapter 49 of the Utah Code Annotated 1953 (Chapter 49) as amended, which also establishes the Utah State Retirement Office (Office) for the administration of the Utah Retirement Systems and plans. The Utah State Retirement Office Act in Chapter 49 provides for the administration of the Utah Retirement Systems and Plans under the direction of the Utah State Retirement Board (Board) whose members are appointed by the Governor. The Systems issued a publicly available financial report that includes financial statements and required supplementary information for the Local Governmental Noncontributory Retirement System. A copy of the report may be obtained by writing to the Utah Retirement Systems, 540 East 200 South, Salt Lake City, UT 84102 or by calling 1-800-365-8772.

*Funding Policy* — Heber Valley Special Service District is required to contribute 11.09% of their annual covered salary for the period from January 2005 to December 2005. The contribution rates are the actuarially determined rates. The contribution requirements of the Systems are authorized by statute and specified by the Board.

The District contributions to the Noncontributory Retirement System for December 31, 2005, 2004, and 2003 were \$9,780, \$8,311, and \$6,940, respectively. The contributions were equal to the required contributions for each year.

## **NOTE 8 – ECONOMIC DEPENDENCY**

The District is economically dependent on the services it provides to Heber City and Midway Sanitation District. All of the District's Sewer Service Revenue comes from these governmental entities. They provided \$251,765 and \$174,489 in 2005 and \$373,525 and \$238,888 in 2004, respectively.

## **NOTE 9 – MAYFLOWER SERVICE AGREEMENT/JORDANELLE SPECIAL SERVICE DISTRICT**

The District entered into an agreement with Mayflower Special Service District on August 29, 1989 whereby the Heber Valley Special Service District would provide sewage treatment to certain properties located within Wasatch County. However, that agreement was voided with the creation of the Jordanelle Special Service District. In May 1998 the Wasatch County Commissioners determined that the entity of choice for sewer and other municipal services in the Jordan Basin, including Mayflower, is the Jordanelle Special Service District. The 1999 Facility Plan of the Heber Valley Special Service District recognizes 1,640 potential connections from the Jordanelle Special Service District. As of October 31, 2005, there are 704 equivalent residential connections (ERC's).

On October 29, 2001 the District passed Resolution No. 01-02 supporting the design and construction of a wastewater treatment facility by the Jordanelle Special Service District. The District will cooperate with

Jordanelle in the approval, design, and construction of a wastewater treatment facility and provide wastewater treatment during that process.

#### **NOTE 10 – CHANGE IN ACCOUNTING PRINCIPLE**

During the year ended December 31, 2004, the District implemented GASB Statement No. 34, which modifies accounting and financial reporting standards for basic financial reporting. The effect of applying this statement upon the beginning fund balance of the District was \$0.

#### **NOTE 11 – RISK MANAGEMENT**

The District is subject to risk of loss from various events, including torts, theft, damage to assets, business interruption, errors and omissions, and job-related injuries to employees, as well as acts of God.

The District has purchased insurance and workers' compensation coverage to minimize their risks of loss. There has been no significant reduction in coverage against these losses from year to year.

**SUPPLEMENTAL INFORMATION**  
**HEBER VALLEY SPECIAL SERVICE DISTRICT**  
**SCHEDULE OF REVENUES, EXPENSES, DEBT RETIREMENT**  
**AND CAPITAL ASSET ACQUISITIONS**  
**COMPARED TO BUDGET AS AMENDED**  
**(Other than Depreciation and Impact Fee Transactions)**  
**FOR THE YEAR ENDED DECEMBER 31, 2005**

	Original	Final		Variance with
	Budget	Budget	Actual	Final Budget
				Over/
				(Under)
<b>Operating Revenues</b>				
Sewer service charges	\$ 390,500	\$ 390,500	432,521	\$ 42,021
Farmstead revenue	85,000	85,000	117,443	32,443
Miscellaneous income	150,000	150,000	-	(150,000)
<b>Total Operating Revenues</b>	<b>625,500</b>	<b>625,500</b>	<b>549,964</b>	<b>(75,536)</b>
<b>Other Revenue</b>				
Interest income (excluding impact				
fee interest)	9,000	9,000	33,472	24,472
Land rent	6,900	6,900	8,337	1,437
<b>Total Revenues</b>	<b>641,400</b>	<b>641,400</b>	<b>591,773</b>	<b>(49,627)</b>
<b>Operating Expenses</b>				
Sewer service	233,000	233,000	206,081	(26,919)
Farmstead	148,900	148,900	97,869	(51,031)
Administrative and general expenses				
(excluding depreciation)	54,000	54,000	63,764	9,764
<b>Total Operating Expenses</b>	<b>435,900</b>	<b>435,900</b>	<b>367,714</b>	<b>(68,186)</b>
<b>Other Expenses and Debt</b>				
Miscellaneous	150	150	-	(150)
Capital purchases and updates	205,350	205,350	173,754	(31,596)
<b>Total Other Expenses, Debt</b>				
<b>Retirement and Capital</b>				
<b>Acquisitions</b>	<b>205,500</b>	<b>205,500</b>	<b>173,754</b>	<b>(31,746)</b>
<b>Excess of Revenues Over Expenses, Debt</b>				
<b>Retirement and Capital Acquisitions</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 50,305</b>	<b>\$ 50,305</b>

# HANSEN, BARNETT & MAXWELL

A Professional Corporation  
CERTIFIED PUBLIC ACCOUNTANTS

5 Triad Center, Suite 750  
Salt Lake City, UT 84180-1128  
Phone: (801) 532-2200  
Fax: (801) 532-7944  
www.hbmcpas.com

Registered with the Public Company  
Accounting Oversight Board



## REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Honorable Board of Heber Valley  
Special Service District  
Midway, Utah

We have audited the financial statements of Heber Valley Special Service District as of and for the year ended December 31, 2005, and have issued our report thereon dated April 13, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States of America.

### Internal Control over Financial Reporting

In planning and performing our audit, we considered Heber Valley Special Service District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

### Compliance and Other Matters

As part of obtaining reasonable assurance about whether Heber Valley Special Service District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the board, management, and governmental oversight bodies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Hansen, Barnett &amp; Maxwell".

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah  
April 13, 2006

# HANSEN, BARNETT & MAXWELL

A Professional Corporation  
CERTIFIED PUBLIC ACCOUNTANTS

5 Triad Center, Suite 750  
Salt Lake City, UT 84180-1128  
Phone: (801) 532-2200  
Fax: (801) 532-7944  
www.hbmcpas.com

Registered with the Public Company  
Accounting Oversight Board



## INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH GENERAL AND SPECIFIC REQUIREMENTS APPLICABLE TO AUDITS OF LOCAL GOVERNMENTS IN UTAH

Honorable Board of Heber Valley  
Special Service District  
Midway, Utah

We have audited the financial statements of Heber Valley Special Service District for the year ended December 31, 2005, and have issued our report thereon dated April 13, 2006. Our audit included test work on the District's compliance with those general compliance requirements identified in the State of Utah Legal Compliance audit Guide, including:

- Public Debt
- Cash Management
- Purchasing Requirements
- Budgetary Compliance
- Special District
- Impact Fees
- Other Compliance Requirements

The District did not receive any major or non-major State grants during the year ended December 31, 2005.

The management of the Heber Valley Special Service District is responsible for the District's compliance with all compliance requirements identified above. Our responsibility is to express an opinion on compliance with those requirements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether material noncompliance with the requirements referred to above occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements. We believe that our audit provides a reasonable basis for our opinion.

The results of our audit procedures disclosed no instances of noncompliance with the requirements referred to above.

In our opinion, the Heber Valley Special Service District complied, in all material respects, with the general compliance requirements identified above for the year ended December 31, 2005.

A handwritten signature in cursive script that reads "Hansen, Barnett &amp; Maxwell".

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah  
April 13, 2006

# HANSEN, BARNETT & MAXWELL

A Professional Corporation  
CERTIFIED PUBLIC ACCOUNTANTS

5 Triad Center, Suite 750  
Salt Lake City, UT 84180-1128  
Phone: (801) 532-2200  
Fax: (801) 532-7944  
www.hbmcpas.com

Registered with the Public Company  
Accounting Oversight Board



To the Board of Directors and Management  
Heber Valley Special Service District

In planning and performing our audits of the financial statements of Heber Valley Special Service District for the year ended December 31, 2005 we considered its internal control structure in determining our auditing procedures. We do this for the purpose of expressing our opinion of the financial statements rather than to provide assurance on the internal control structure. As a result of our work, we have several comments that are designed to assist the District in strengthening its internal control structure and to further inform you regarding the District's annual financial reporting.

## ***Board Oversight***

We encourage the board to continue its oversight of the management and financial activities of the Heber Valley Special Service District. This is an important and integral part of the organization's control structure. Management should continue to provide the board with whatever relevant information it may request as well as perform those duties at the board's direction.

## ***Journal Entry Preparation, Processing and Reviewing***

During the 2004 audit it appeared that the board had begun reviewing journal entry detail and back-up in its monthly meeting. During the 2005 audit we continued to see support that the Board is reviewing this information in its monthly meeting. We appreciate the board's work in reviewing this information and integrating our prior year suggestion.

We appreciate the District's work and efforts in meeting the required accounting and reporting standards for governmental entities.

This report is intended solely for the information and use of Heber Valley Special Service District's Board of Directors, management, others within the organization, and appropriate state agencies.

HANSEN, BARNETT & MAXWELL

Salt Lake City, Utah  
April 13, 2006